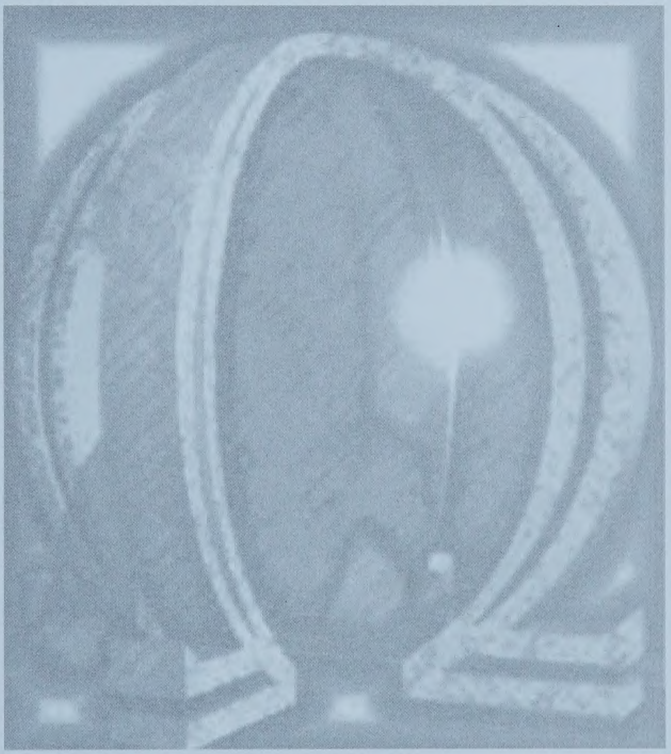
Ceapro Inc.

Annual Report 1999



Nature Enhancing Life®

Corporate Profile

Ceapro Inc. is an emerging biotechnology company specializing in the application of advanced separation technology to extract phytochemicals. The company's focus is the use of standardized extracts in innovative health applications. Stated simply:

Nature Enhancing Life®

Significant Events

1999

February
- Distribution agreement completed with **Dragoco Gerberding & Co. AG** for marketing Ceapro β ***glucan*** and ***colloidal oat extract*** to global cosmetic/ personal care markets
- AVAC Ltd. invests in the commercialization of ***colloidal oat extract*** technology

March
- Production pilot studies commence

May
- New β ***glucan*** patent application filed in US, Canada, EU, Japan, and Australia
- New ***colloidal oat extract*** patent application filed in Germany
- Global launch of Ceapro β ***glucan*** and ***colloidal oat extracts***
- First shipments to Dragoco

July
- Restocking order for Japanese animal health market

November
- Debenture financing closes for $252,000

December
- Joint venture agreement with Nutrinova AG for research and development on Ceapro β ***glucan*** and ***colloidal oat extract*** for nutraceutical and functional food applications
- Lawsuit filed against Government of Saskatchewan, Saskatchewan Government Growth Fund, and Can-Oat Milling
- Distribution agreement completed with **McCarthy & Sons** for marketing of Ceapro **veterinary products** in Canada

2000

January
- Distribution agreement completed with **Veterinary Marketing Network** for marketing of Ceapro **veterinary products** in Australia and New Zealand

March
- Debenture financing closes for $320,000

May
- Five year, $5 million contract extension for **Ceapro Oat Powder** with **Ultravena Industries USA, Ltd.**
- New ***colloidal oat extract*** patent application filed in US, Canada, EU, Japan, and Australia

Message to Shareholders

In 1999 Ceapro reached the end of its beginning. This critical turning point cannot be attributed to any single event but as the achievement of milestones and more. Ceapro deployed new technology, commenced commercial production, secured critical contracts, serviced global markets, and met the challenge of reformation. Ceapro has changed, but through the turmoil and change has never lost sight of its original mission to produce and use phytochemicals in innovative health products.

Ceapro's production capability was ensured through the deployment of new, patent pending extraction technology and subsequent activation of manufacturing operations. The new manufacturing processes encompass significant innovations that improve quality and production efficiency. Through creativity and applied intuition, we have built production capacity to manufacture quality extracts in tonne quantities and meet market demands.

Today, the production of β glucan and colloidal oat extract takes place at the Alberta Agriculture, Food, and Rural Development facility in Leduc, Alberta. Manufacturing at this facility meets the global market demand projections for the next 18-24 months. During this period, Ceapro will continue to grow markets, fine-tune processes, and complete facility design work before committing to the construction of a new processing plant.

In December, Ceapro moved its offices to the new research transition facility at the University of Alberta. This location gives the company proximity to research facilities and the opportunity to participate in initiatives supportive of the company's interests. We also relocated scientists and all research activities to Alberta.

Ceapro has filled its product pipeline with innovative, high-quality goods. These products are manufactured for Ceapro or acquired from strategic partners in the Ceapro value-chain. Manufactured and contracted goods include the production of the veterinary dermatological line, the diabetes screening kits, as well as special oat products that require large scale, bulk grain processing.

Product Pipeline	Status
Extracts	
β glucan	**Launched 1999**
Colloidal oat extract	**Launched 1999**
High fibre oat bran	**Launched 1999**
New plant extracts	Launch 2001/2
Metabolic Disease	
Accuscreen diabetes kit	Launch 2000
Dermatology	
Vet oat shampoo	**Launched 1998**
Vet coat conditioner	Launch 2000
Vet ear cleanser	Launch 2000
Vet humectant spray	Launch 2000
Vet 'hot-spot' spray	Launch 2000
Oat powder	**Launched 2000**

The year saw the signing of several important marketing agreements.

In February, an agreement was reached with **Dragoco Gerberding & Co. AG of Holzminden, Germany**. Dragoco is a leading international supplier of fragrance compositions, flavors, and cosmetic raw materials and active ingredients. Ceapro provides Dragoco with two scientifically defined, functional extracts. Dragoco provides Ceapro with marketing and sales customer support and success.

The December 1999 joint venture research and development agreement with **Nutrinova AG** of Frankfurt, Germany, formerly **Hoechst Nutrition Division**, is strategic to Ceapro's entry into the sizable global nutraceutical and functional food market sectors. As a major supplier to these rapidly emerging global sectors, Nutrinova provides Ceapro with a significant partner to penetrate these important markets. At the culmination of research and development projects on Ceapro's advanced ingredient materials, Nutrinova will be licensed to globally market these products for Ceapro.

Ceapro continues to broaden the distribution of the animal health products through strategic licensing partnerships. In summer 1999, Ceapro delivered a second major shipment of Dr. Redmond's Oat Shampoo to Japan and launched a new dispensary version to the Japanese veterinarian market. Market penetration continues to grow and Ceapro anticipates launching further products in Japan in 2000/2001.

Ceapro also signed a Canadian distribution agreement in December 1999 with **McCarthy & Sons**. Product launch for Canada is scheduled for early summer 2000. We are optimistic of having further license agreements completed in Australia, New Zealand, and Europe in 2000.

During 1999, Ceapro completed all of the work necessary to take the AccuScreen kit for the early detection of diabetes to market. This work included development of standard operation procedures derived from baking trials, quality assurance and quality control programs, and packaging design. We expect to have the product launched in the year 2000.

In November 1999, Ceapro filed a $61 million lawsuit in Court of Queen's Bench, Alberta against the Government of Saskatchewan, Saskatchewan Government Growth Fund, Can-Oat Milling, and officers of these entities. Ceapro expects this action to be before the courts throughout 2000.

To fulfil our mission, we have completed restructuring the company. Mr. Doug Clement heads **Business Development** including contracts, marketing, and partnerships. Mr. Ken Pilip leads **Investor Relations. Ceapro Operations**, including scientific and manufacturing functions, are the responsibility of Dr. Mark Redmond.

We strengthened the Board of Directors through the additions of: Mr. John Yewchuk, President of Thermo King (Western) Ltd.; Mr. Ed Taylor, Vice President and CFO of Biomira Inc.; and Mr. Don Oborowsky President of Waiward Steel Fabricators Ltd. Each new Director brings significant business and entrepreneurial experience to Ceapro.

Throughout 1999 Ceapro staff and directors have demonstrated tenacity of mind and spirit together with courage to succeed. This commitment required personal sacrifice on behalf of the officers who deferred salaries throughout the year.

The company reduced its overhead costs by 42% compared to 1998. This cost cutting was achieved by tight expenditure control and staff reduction through attrition as projects reached completion. As Ceapro's commercial activity continues we anticipates raising sufficient capital to resolve other outstanding financial issues.

Since December, the financial markets have expressed a renewed interest in Ceapro's stock, leading the trading to a new high in volume and setting a new one-year high. We expect market confidence to grow as we expand the business.

Corporate Milestones
1999 Completed
Concluded personal-care/cosmetics marketing agreement
Completed new extract efficacy trials
Built production capacity
Commenced manufacturing
Filed two new patent applications
Completed companion animal health product licenses
Initiated functional food/nutraceutical product joint-venture
2000 Projected
Launch functional food ingredients
Resolution of creditor/CCAA issue
Expansion of production capacity
Completion of diabetes test kit marketing agreement and launch
Completion of animal health distribution agreements for Australia and Europe
File new patent applications (2)
Completion of private placement/debenture financing
License special products for human health use
Profitability
2001 Projected
Expansion of operation staff
Completion of nutraceutical trials
Production of new extracts
Demonstration of next (G3) generation separation technologies
Expansion of research activity
Completion of functional food ingredient distribution agreements
Completion of G3 separation technology licenses
Increased market share in cosmetics/personal care and animal health

Looking forward: Ceapro possesses a clear vision, outstanding technology and products, and strong partnerships to build upon the accomplishments of this past year.

Ceapro's immediate strategy is to focus on the full utilization of our core technology as applied to oats. However, we are already considering new applications and markets in human and veterinary medicine, as well as functional foods and nutraceuticals, and cosmetics/personal care. In this way we will realize the full value of our intellectual capital.

Ceapro extracts are setting the standards for oat extracts by virtue of quality, specific function, and certified potency. These traits are measured by proprietary 'finger-printing' technology guaranteeing 'Ceapro standardized quality'.

Ceapro technologies are truly dynamic. Over the last two years our processing and 'finger-printing' skill have continued to evolve. We are entering the third generation (G3) of our separation technologies. This 'G3' generation is applicable to plants other than oats and it is our intention to see our technology so deployed. Naturally, we will explore plants adapted to growth on Alberta's prairies and in our forests; however, we will also seek broader 'global' use of our process technology for the preparation of extracts from crops of horticulture, agriculture, forestry, and aquaculture.

Potential health targets for novel extracts include anti-inflammatory (non-steroidal) compounds, immune system stimulants, anti-oxidants, as well as formulations for niche markets such as inflammatory bowel disease and Crohn's disease.

In developing new applications and extracts Ceapro will work both independently and in conjunction with partners and potential technology licensees. The result of such collaborations is expected to be revenue from license fees, royalties, and sales of separation systems.

Ceapro and our marketing partners are active in presenting new product concepts and active ingredients to both new and existing customers. While our product concepts reduce development time, the typical new product cycle of 12 – 18 months cannot be fast-tracked.

1. Concept, market assessment, formulation
2. Testing, refining, package design
3. Scale-up, pre-market activity
4. Ingredient ordering, production
5. Product launch

We are now 12 months into the product development cycle following the launch of β glucan and colloidal oat extract. As a result, we are anticipating an increase in market demand for our extracts to stem from the imminent launch of new product lines.

It has long been our strategy to use our veterinary products not only to provide veterinarians with the leading dermatological products but also to serve as models for the broad utility of our extracts. The success of our veterinary 'oat shampoo' has prompted us to expand our product line with additional products with oat efficacy.

We have also been encouraged to investigate the application of β glucan in the development of wound care products for veterinary applications. We expect that this research will ultimately lead to the development of corresponding products for human medical application in the fields of wound care and adjuncts to radio/chemotherapy.

In conclusion, in developing Ceapro we shall remain dedicated to the application of advanced separation technology to extract phytochemicals. We will remain focused on the use of standardized extracts in innovative health applications. We are sure to face new challenges as Ceapro grows, nevertheless the staff and directors are confident that the future will bring its rewards.

Sincerely,

Robert A. Binnendyk
President and Chief Executive Officer

CEAPRO INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1999 AND 1998

AUDITORS' REPORT

To: The Shareholders of
CEAPRO INC.

We have audited the balance sheet of **Ceapro Inc.** as at December 31, 1999 and 1998, and the statements of loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Stout & Company

Chartered Accountants

Edmonton, Canada
February 22, 2000

CEAPRO INC.

BALANCE SHEETS - DECEMBER 31, 1999 AND 1998

	1999	1998
ASSETS		
CURRENT ASSETS		
Cash	$ 24,020	$ 7,329
Accounts receivable	87,903	80,080
Inventory (note 4)	46,069	8,169
Prepaid expenses	9,422	28,161
Loan receivable (note 5)	-	50,000
	167,414	173,739
CAPITAL ASSETS (note 6)	123,927	122,952
INTANGIBLE ASSETS (note 7)	-	182,655
	$ 291,341	$ 479,346
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 2)	$ 1,637,343	$ 1,261,314
Loans payable (note 8)	226,000	256,411
Convertible debentures (note 9)	223,243	-
Current portion of long-term debt	22,934	8,348
	2,109,520	1,526,073
LONG-TERM DEBT (note 10)	79,654	41,652
	2,189,174	1,567,725
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (note 11)	43,906,714	43,847,098
DEFICIT	(45,804,547)	(44,935,477)
	(1,897,833)	(1,088,379)
	$ 291,341	$ 479,346

Going concern (note 2)

See accompanying notes

Approved On Behalf Of The Board

Director

John Zupancic

Director

CEAPRO INC.

STATEMENTS OF LOSS

YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
Sales (note 14)	$ 326,373	$ 399,934
Cost of sales	163,315	67,250
Gross margin	163,058	332,684
Royalties and licences	298,000	-
	461,058	332,684
Expenses		
General and administrative	753,721	1,135,995
Research and development	356,564	780,649
	1,110,285	1,916,644
Loss before interest on long-term debt and amortization	649,227	1,583,960
Interest on long-term debt	6,496	111,770
Amortization of capital assets	30,692	39,548
Amortization of intangible assets	-	62,885
	37,188	214,203
Loss before the following	686,415	1,798,163
Interest and other income	-	(41,322)
Write-off of long-term investment (note 15)	-	6,586,427
Write-down of loan receivable (note 5)	-	158,389
Write-down of intangible assets (note 7)	182,655	5,758,016
LOSS FOR THE YEAR	$ 869,070	$ 14,259,673
LOSS PER SHARE	$ 0.04	$ 0.79

Going concern (note 2)

See accompanying notes

CEAPRO INC.

STATEMENTS OF DEFICIT

YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
Deficit at beginning of year	$ 44,935,477	$ 30,675,804
Loss for the year	869,070	14,259,673
DEFICIT AT END OF YEAR	$ 45,804,547	$ 44,935,477

Going concern (note 2)

See accompanying notes

CEAPRO INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
OPERATING ACTIVITIES		
Loss for the year	$ (869,070)	$ (14,259,673)
Add items not affecting cash		
Amortization	30,692	102,433
Write-down of intangible assets	182,655	5,758,016
Write-down of loan receivable	-	158,389
Write-off of long-term investment	-	6,586,427
Loss on disposal of capital assets	-	783
	(655,723)	(1,653,625)
Changes in non-cash working capital items		
Accounts receivable	(7,823)	145,735
Inventory	(37,900)	(4,274)
Prepaid expenses	18,739	48,993
Accounts payable and accrued liabilities	376,029	(981,600)
	(306,678)	(2,444,771)
INVESTING ACTIVITIES		
Investments and loans receivable:		
Canamino Inc.	-	(223,829)
Reduction of loan receivable	50,000	41,611
Purchase of capital assets	(81,667)	(1,287)
Proceeds on disposal of capital assets	-	9,240
Additions to intangible assets	-	(24,655)
	(31,667)	(198,920)
FINANCING ACTIVITIES		
(Decrease) increase in loans payable	(30,411)	156,411
Proceeds from convertible debentures	237,058	-
Increase (decrease) in long-term debt	52,588	(1,283,060)
Government assistance	50,000	-
Issuance of common shares	45,801	3,759,626
	355,036	2,632,977
Increase (decrease) in cash	16,691	(10,714)
Cash at beginning of year	7,329	18,043
CASH AT END OF YEAR	$ 24,020	$ 7,329

Going concern (note 2)

See accompanying notes

1. NATURE OF BUSINESS OPERATIONS

Ceapro Inc. (the "company") was incorporated under the Business Corporations Act of Alberta and is listed on the Canadian Venture Exchange. The company's primary business activities relate to the development of various innovative life sciences products and processes relating to oat fractionation technology.

On May 5, 1998, control of the company's wholly owned subsidiary, Canamino Inc. ("Canamino") was assumed by Canamino's Class B preferred shareholder, the Saskatchewan Government Growth Fund Ltd. ("SGGF"), due to default of payment of dividends due in October, 1997, and the failure to redeem 500,000 Class B preferred shares as required under the subscription agreement. Control was gained through the assumption of 51% of the voting entitlement attached to the Class A common shares (see note 13(c)).

2. GOING CONCERN ASSUMPTION

These financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. However, the company has experienced significant operating losses and its ability to continue operations is dependent upon achieving profitability or securing additional debt or equity financing. The use of generally accepted accounting principles that are applicable to a going concern may be inappropriate because there is significant doubt about the appropriateness of the going concern assumption.

These financial statements do not give effect to adjustments to the amounts and classifications of assets and liabilities that would be necessary should the company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities and commitments at amounts different from those in the accompanying financial statements.

On February 27, 1998, the company obtained an order of the Court of Queen's Bench of Alberta pursuant to the Companies Creditors Arrangement Act to facilitate a restructuring of its unsecured debt. On March 2, 1998, the company submitted a formal plan of arrangement whereby it proposed to pay its unsecured creditors with a claim of greater than $1,000 payment of one third of their claim in cash and two thirds in Class A shares of the company based on a share price of $1.25. Unsecured creditors with a claim of less than $1,000 were proposed to be paid in cash only. On March 25, 1998, the unsecured creditors voted to accept the plan of arrangement. On May 26, 1998, an Order of the Court of Queen's Bench of Alberta was issued approving the plan and the shares were issued (see note 11(b)). As at December 31, 1999 and 1998, included in accounts payable and accrued liabilities is $969,208 pursuant to the plan of arrangement.

3. ACCOUNTING POLICIES

(a) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reported period. By their nature, these estimates are subject to measurement uncertainty and the effect on these and future financial statements of changes in such estimates could be significant.

(b) Inventory

Inventory of raw materials is valued at the lower of cost and replacement cost on a first-in, first-out basis.

Inventory of work-in-progress and finished goods is valued at the lower of cost and net realizable value on a first-in, first-out basis.

(c) Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives as follows:

Office equipment	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	25% straight-line
Manufacturing equipment under capital lease	30% declining balance

(d) Intangible assets

Goodwill and patents are recorded at cost less accumulated amortization. Patents are amortized on a straight-line basis over the remaining life of the patent, commencing the later of the year commercial production is achieved or the patent is granted. Goodwill is amortized on a straight-line basis over a period not longer than 20 years.

The company continually evaluates whether events and circumstances have occurred that indicate the remaining useful life of intangible assets may warrant revision or that the remaining balance may not be recoverable. The company uses an estimate of undiscounted operating income and related cash flows over their remaining useful life to determine whether the carrying amounts of these assets are recoverable. If management's assessment or other facts and circumstances pertaining to the recoverability of such assets were to change, the company will adjust the carrying values as appropriate and charge such costs to operations.

Due to the long-term nature of estimates inherent in determining future cash flows and the useful life of these assets, it is reasonably possible the estimated recoverable amount of these assets could be reduced in the future.

3. ACCOUNTING POLICIES (continued)

(e) Foreign currency

Monetary assets and liabilities recorded in a foreign currency are translated into Canadian dollars at period end exchange rates and non-monetary assets at the exchange rates prevailing when the assets were acquired. Foreign currency denominated revenue and expense items are translated at the rate of exchange in effect at the time of the transaction. Foreign currency gains or losses arising on translation are included in income except those pertaining to long-term debt which are deferred and amortized over the remaining term of the debt.

(f) Income taxes

The liability method of tax allocation is used in accounting for income taxes. Under the liability method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

(g) Lease obligations

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

(h) Government assistance

Government assistance is periodically applied for under available government incentive programs. Government assistance relating to capital assets and research and development expenditures are recorded as a reduction of the expenditures when received.

(i) Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided there is reasonable assurance that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

(j) Net income (loss) per share

Net income (loss) per share is calculated based on the weighted average number of shares outstanding during the year. Fully diluted net income (loss) per share reflects the dilutive effect of conversion of the convertible debentures and the exercise of warrants and stock options. Per share amounts, when antidilutive, are not disclosed.

4. INVENTORIES

	1999	1998
Inventories consist of the following:		
Raw materials	$ 41,251	$ 3,382
Work-in-progress	4,818	-
Finished goods	-	4,787
	$ 46,069	$ 8,169

5. LOAN RECEIVABLE

		1999	1998
Loan receivable	$ -	$ 50,000	
Less current portion		-	50,000
		$ -	$ -

On January 20, 1999, as a condition of settlement of an employment contract, the employee paid $50,000 to the company. The loan receivable has been written down by $158,389 to the net realizable value of $50,000 for the year ended December 31, 1998.

6. CAPITAL ASSETS

	1999		
	Cost	Accumulated Amortization	Net
Office equipment	$ 126,686	$ 63,762	$ 62,924
Computer equipment	95,463	65,567	29,896
Leasehold improvements	5,333	3,217	2,116
Manufacturing equipment under capital lease	30,517	1,526	28,991
	$ 257,999	$ 134,072	$ 123,927

	1998		
	Cost	Accumulated Amortization	Net
Office equipment	$ 126,686	$ 48,031	$ 78,655
Computer equipment	94,313	52,837	41,476
Leasehold improvements	5,333	2,512	2,821
	$ 226,332	$ 103,380	$ 122,952

7. INTANGIBLE ASSETS

	1999		
	Cost	Accumulated Amortization	Net
Patents	$ -	$ -	$ -

	1998		
	Cost	Accumulated Amortization	Net
Patents	$ 182,655	$ -	$ 182,655

During the years ended December 31, 1999 and 1998 the company reviewed the carrying value of certain intangible assets by comparing expected future operating cash flows to the unamortized values of such assets. The company also considered other factors such as current operating results, future uncertainties with respect to supply of raw materials and changes in technology.

During the year ended December 31, 1999, it was determined that the recoverable amount of the patents capitalized at December 31, 1998 was nominal and, as a result, the company wrote down the carrying value of intangible assets by $182,655.

During the year ended December 31, 1998, the company wrote down the carrying value of intangible assets by $5,758,016.

8. LOANS PAYABLE

	1999	1998
10% loans payable to employees.	$ 17,500	$ -
10% loan payable, secured by a general security agreement.	10,000	57,911
Loans payable, non-interest bearing.	198,500	198,500
	$ 226,000	$ 256,411

The loans payable have no fixed terms of repayment and are due on demand.

9. CONVERTIBLE DEBENTURES

	1999	1998
Convertible debentures	$ 223,243	$ -

During the year ended December 31, 1999, the company issued convertible debentures with a face value of $237,058. The convertible debentures are unsecured, interest bearing at 12% per annum, with interest payable semi-annually in April and November. The convertible debentures are due on or before October, 2003, at the option of the holder. The debentures are convertible, at the option of the holder, into common shares of the company as follows:

Conversion rate per common share	Conversion date
$ 0.25	January, 2000 to October, 2000
$ 0.50	October, 2000 to October, 2001
$ 0.80	October, 2001 to October, 2002
$ 1.00	October, 2002 to October, 2003

Upon issuance, the liability component of the convertible debenture was valued at $223,243, representing the present value of future minimum cash payments to be made by the company. The remaining $13,815 was reclassified to share capital (see note 11(b)).

10. LONG-TERM DEBT

	1999	1998
Capital lease obligation, payable $1,586 per month, due, October, 2003. Manufacturing equipment under capital lease has been provided as security.	$ 72,941	$ -
Less amounts representing interest at 9.5%	12,005	-
	60,936	-
Loan, payable $3,113 per quarter principal and interest at prime plus 2%, due December, 2003.	41,652	50,000
	102,588	50,000
Less current portion	22,934	8,348
	$ 79,654	$ 41,652

Future minimum lease payments and principal payments due in the next four years are as follows:

2000	$ 22,934
2001	25,128
2002	27,526
2003	27,000
	$ 102,588

11. SHARE CAPITAL

(a) Authorized

Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares

(b) Issued - Class A common shares

	1999		1998	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning of year	21,091,015	$ 43,847,098	16,184,078	$ 36,024,639
Issued during the year for:				
Cash-	-	2,447,187	1,957,750	
Special warrants	-	-	800,000	4,000,000
Partial settlement of unsecured creditors (see note 2)	-	-	1,305,500	1,631,876
Employee and director remuneration	138,792	45,801	354,250	232,833
	138,792	45,801	4,906,937	7,822,459
	21,229,807	43,892,899	21,091,015	43,847,098
Convertible debentures equity component (see note 9)	-	13,815	-	-
	21,229,807	$ 43,906,714	21,091,015	$ 43,847,098

(c) Stock options outstanding were as follows:

	1999	
Exercise price	Number of options	Year of expiration
$ 0.25	1,100,000	2004
$ 1.00	266,667	2003
$ 1.00	75,000	2004
$ 0.13	350,000	2000
	1,791,667	

11. SHARE CAPITAL (continued)

1998		
Exercise price	Number of options	Year of expiration
$ 1.00	1,246,667	2003
$ 1.00	320,000	2004
$ 0.13	11,111	2000
	1,577,778	

During the year ended December 31, 1999, the company issued a total of 150,000 stock options exercisable at $1.00 per common share and 350,000 stock options exercisable at $0.13 per common share. On December 21, 1999, the company cancelled 1,075,000 stock options (including the above noted 150,000 stock options) exercisable at $1.00 per common share and issued 1,100,000 new stock options, exercisable at $0.25 per common share.

During the year ended December 31, 1999, 311,111 stock options expired due to the holders no longer qualifying under the terms of the stock option plan.

(d) Warrants outstanding were as follows:

1999		
Exercise price	Number of common shares	Year of expiration
$ 1.00	1,248,594	2000

1998		
Exercise price	Number of common shares	Year of expiration
$ 1.00	1,248,594	2000
$ 1.25	600,000	1999
$ 5.00	400,000	1999
	2,248,594	

During the year ended December 31, 1999, 1,000,000 warrants expired.

12. COMMITMENTS

(a) The company rents premises and equipment under long-term operating leases. Future minimum annual lease payments, excluding operating costs, are as follows:

	2000	2001	2002
Premises	$ 39,774	$ 39,774	$ -
Equipment	7,523	1,925	311
	$ 47,297	$ 41,699	$ 311

(b) Pursuant to a technology license agreement, the company has exclusive rights to certain patents and trade secrets. The license expires on the later of the date of expiration of the last remaining patent or 10 years from the date of first commercial sale of the licensed product, which is defined as a calendar month with sales greater than $50,000.

As a condition of the technology license agreement, the company has agreed with the University of Saskatchewan (U of S) that by June 30, 2000, it will effect payment to the U of S for a minimum of $500,000 for research and development to be conducted at the U of S, of which not less than $300,000 shall be effected by May 1, 1998.

Subsequent to December 31, 1999, the company entered into a Memorandum of Understanding (MOU) with the U of S, subject to approval from the U of S Board of Directors. The MOU revises the existing technology license agreement in that the company and the U of S will work towards a research and development project in the amount of $500,000 with the terms and conditions to be determined by December 31, 2001. If the company and the U of S cannot agree on a research and development project by December 31, 2001, then the company will pay the U of S, on or before June 30, 2004, $150,000, net of costs incurred by the company to settle the original technology license agreement.

13. CONTINGENCIES

(a) The company has guaranteed the payment of royalties by Canamino to an unrelated third party. The royalty agreement of Canamino required it to pay royalties calculated as the greater of 3% of Canamino's sales or the following annual amounts:

1997	$ 75,000
1998	$ 200,000
1999	$ 200,000
Thereafter per year	$ 250,000

13. CONTINGENCIES (continued)

It is managements' opinion that no amount is payable related to this guarantee, due to the following:

i) the unrelated third party no longer holds the rights to the technology upon which the royalties were due;
ii) the bankruptcy of Canamino (see note 1); and
iii) the Amended Statement of Claim (see note 13(c)).

No amounts have been accrued or paid at December 31, 1999 and 1998.

(b) Pursuant to a letter of undertaking dated June 9, 1995, the company agreed with the Royal Bank of Canada, a lender to Canamino, to provide sufficient funds to Canamino to service loans and prevent covenant breaches of Canamino should this become necessary.

On October 1, 1998, Canamino was placed in receivership and on January 19, 1999, the Royal Bank of Canada made a demand of $2,718,000 on the company (see note 13(c)). On October 20, 1999, the Royal Bank of Canada released the company from all claims for nominal consideration.

(c) On November 1, 1999, the company filed an Amended Statement of Claim ("the claim") with the Court of Queens Bench of Alberta. The principal defendant in the claim is SGGF. The claim alleges that the company has suffered damage to goodwill and other property, including its investment in Canamino (see note 1). The claim asks for damages of $64,740,000. At December 31, 1999, the status of the claim was undeterminable.

14. SALES

Substantially all sales are export sales.

15. WRITE-OFF OF LONG-TERM INVESTMENT

On May 5, 1998, Canamino's Class B preferred shareholder, SGGF, took effective control of Canamino due to certain defaults in the subscription agreement (see note 1). On October 1, 1998, Canamino was placed into receivership. As a result, the company has written off its investment in Canamino and related loans totalling $6,586,427 for the fiscal year ending December 31, 1998.

16. RELATED PARTY TRANSACTIONS

Related party transactions during the year not otherwise disclosed in these financial statements are as follows:

	1999	1998
Transactions with directors and employees		
Loans payable to employees included in loans payable	$ 17,500	$ -
Interest expense paid or payable to directors and employees	$ 4,458	$ 18,100
Amount payable to directors included in accounts payable and accrued liabilities	$ 65,441	$ 34,334
Amounts receivable from employees and included in accounts receivable	$ 57,009	$ 55,315
Convertible debentures payable to a director and employees	$ 30,466	$ -

These transactions are considered to be in the normal course of business operations and are recorded at fair market value.

17. INCOME TAXES

(a) Non-capital losses

The company has accumulated non-capital losses carried forward for income tax purposes of approximately $10,656,000, the benefit of which has not been reflected in these financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and expire as follows:

2000	$ 844,000
2001	1,336,000
2002	2,838,000
2003	1,074,000
2004	2,155,000
2005	1,748,000
2006	661,000
	$ 10,656,000

(b) Net capital losses

The company has net capital losses of approximately $6,807,000, which can be carried forward indefinitely to offset future taxable capital gains.

17. INCOME TAXES (continued)

(c) Scientific research and experimental development (SR & ED)

The company has an accumulated SR & ED expenditure pool of approximately $1,506,000, which can be carried forward indefinitely to be applied against future taxable income.

The company has accumulated SR & ED investment tax credits of approximately $264,000. These credits may be applied against future federal income taxes payable and expire as follows:

2004	$ 25,300
2005	65,800
2006	37,900
2007	119,000
2008	16,000
	$ 264,000

(d) Temporary differences

A future income tax asset reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the company's future tax assets are as follows:

Deductible temporary differences:

	1999	1998
Non-capital losses and SR & ED expenditures carried forward	$ 12,162,000	$ 11,921,000
Deductible refinancing and share issue costs	33,000	79,100
Undepreciated capital cost for tax purposes in excess of net book value	207,000	127,500
Tax value of intangible assets in excess of amounts recorded in financial statements	2,946,000	2,775,900
	$ 15,348,000	$ 14,903,500

For financial statement purposes, no future income tax asset has been recorded at December 31, 1999 and 1998.

17. INCOME TAXES (continued)

(e) Income tax rate reconciliation

The reconciliation of the company's effective income tax rate for the years ended December 31, 1999 and 1998 are as follows:

	1999	1998
Federal income tax rate	38.00%	38.00%
Provincial income tax rate, net of federal abatement	5.50	5.50
	43.50	43.50
Federal surtax	1.12	1.12
Applicable tax rate	44.62	44.62
Income tax rate reduction as a result of current year loss incurred for income tax purposes	(44.62)	(44.62)
Effective income tax rate	- %	- %

18. GOVERNMENT ASSISTANCE

The company received financial assistance (which is not repayable) from AVAC Ltd., a government funded agency, in the amount of $164,882 for the research and development of new products, patents and markets. The company must pay a 5% royalty on all sales generated through products developed by these funds. The royalty is payable until a maximum of $329,763 has been paid.

The financial assistance was recorded as a reduction of expenditures as follows:

Capital assets	$ 50,000
Research and development	114,882
	$ 164,882

19. SUBSEQUENT EVENTS

(a) Issuance of common shares

On February 3, 2000, the company made an application to the Canadian Venture Exchange to issue 113,096 common shares in settlement of $31,668 owing to members of the Board of Directors at December 31, 1999 for services rendered.

(b) Convertible debentures

On February 15, 2000, the company issued $229,360 in Series 2 convertible debentures. The debentures are unsecured, bear interest at 12% and are due on or before February, 2004, at the option of the holder. At December 31, 1999, the company had received $15,000 related to these debentures, which is included in accounts payable and accrued liabilities.

19. SUBSEQUENT EVENTS (continued)

(c) Development agreement

On January 1, 2000, the company entered into a research and development agreement with the National Research Council Canada. The agreement relates to testing the feasibility of new processing methods for oat extracts and expires March 31, 2000. The total cost of the project will be approximately $150,000, with a maximum of $60,000 being reimbursed by the National Research Council Canada.

20. FINANCIAL INSTRUMENTS

The estimated fair value of cash, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to their short-term nature.

The estimated fair value of capital lease obligation approximates its carrying value based on current corresponding borrowing rates for similar types of borrowing arrangements.

The estimated fair value of the loan receivable and loans payable could not be determined due to the difficulty in finding a financial instrument on the market having substantially the same economic characteristics.

The fair value of long-term debt and convertible debentures are estimated using the company's incremental borrowing rate or discounted cash flow analysis for similar types of borrowing arrangements.

21. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with financial statement presentation adopted for the current year.

Directors and Officers

Board of Directors

John Zupancic
Chairman of the Board

Robert A. Binnendyk
President and Chief Executive Officer
Ceapro Inc.

Daniel Koyich
President
JeanDan Management

Donald J. Oborowsky
President and Chief Executive Officer
Waiward Steel Fabricators Ltd.

Edward Taylor
Vice President, Finance & Administration
Chief Financial Officer
Biomira Inc.

John Yewchuck
President and Chief Executive Officer
Thermo King Western Limited

Officers and Corporate Management

Robert A. Binnendyk
President and Chief Executive Officer

Douglas Clement
Vice President

Kenneth Pilip
Senior Vice President

Dr. Mark Redmond
Vice President

Investor Information

Legal Counsel

Bryan and Company
Edmonton, AB

Auditors

Stout and Company
Edmonton, AB

Register and Transfer Agent:

Montreal Trust Company of Canada
6th Floor, 530 - 8th Avenue S.W.
Calgary AB T2P 3S8

Stock Exchange Listing

Shares of the Company are listed on the Canadian Venture Stock Exchange (CDNX) under the Trading Symbol **CZO**

Corporate Investor Relations

For information about the Company, Shareholders or prospective Shareholders are invited to contact:

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